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C O N F I D E N T I A L SECTION 01 OF 02 VIENNA 003417

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TAGS: [ENRG](#) [EPET](#) [ECON](#) [PGOV](#) [PREL](#) [AU](#)
SUBJECT: EUR DAS BRYZA DISCUSSES NABUCCO WITH OMV

REF: VIENNA 3208 AND PREVIOUS

Classified By: Acting Deputy Chief of Mission Gregory E. Phillips for reasons 1.5 (b) and (d).

Summary

1. (C) During a November 16 meeting with EUR DAS Matt Bryza, OMV CEO Wolfgang Rutenstorfer acknowledged that Azeri gas is the most politically and commercially attractive source for the startup of the Nabucco pipeline scheduled in 2011. However, Rutenstorfer questioned whether Azeri reserves would be sufficient over the long-term to fill Nabucco's capacity of 30 billion cubic meters. Egypt, Iraq, Kazakhstan, Turkmenistan, as well as Iran, offer long-term possibilities as Nabucco suppliers. Rutenstorfer pointed out that Russian gas could be part of Nabucco (particularly in the pipeline's initial stage), but certainly not a dominant factor given the high cost of shipping Russian gas south to Turkey then back north via Nabucco. Rutenstorfer added that the political risk of seeking Iranian gas for Phase I was too high. OMV remains concerned with Turkey's attempts to create a special role for itself as a gas broker, significantly beyond its status as a transit nation. Iraqi gas is a medium-term option for Nabucco, but Rutenstorfer expressed frustration with conflicting signals coming from regional officials in Kurdistan and from central government authorities in Iraq. Rutenstorfer opined that Hungary's MOL is trying to balance between East (Gazprom) and West, but he said that "OMV could handle MOL." End Summary.

Azerbaijan Only Real Option for Nabucco Startup

2. (C) On November 16, EUR DAS Matt Bryza met with OMV CEO Wolfgang Rutenstorfer OMV Gas CEO Werner Auli, and Johann Gallistl, Senior Export for Nabucco Gas Pipeline GmbH, to discuss recent developments in the Nabucco project. Rutenstorfer stated that Azerbaijan remains the only viable source for the initial stage of Nabucco. Rutenstorfer added that OMV sought 15 billion cubic meters (bcm) by 2011 or 2012 for Phase I of Nabucco. In the present atmosphere, OMV is intensifying its discussions with the Azeri Government, building on its on-going contacts with British Petroleum and Statoil, which are already active in Azerbaijan. However, Rutenstorfer questioned whether there would be enough Azeri gas in the medium-term to fill the eventual capacity of 30 bcm. Russia could participate in Nabucco Phase I (if Azerbaijan is unable to provide the full 15 bcm), but certainly not in a controlling role. In the current political status, Iran was not an acceptable partner for Nabucco. However, Rutenstorfer opined that, in the long-term, the political situation in Iran could evolve in a different direction, with a variety of sources for Nabucco, including Iraq, Egypt, Turkmenistan Kazakhstan, as well as

Iran.

13. (C) Bryza agreed that Azeri gas is vital to assure Nabucco's success. Azerbaijan should seize the moment and become more active in marketing its gas for Southern Corridor pipelines. Bryza noted that his discussions with senior Azeri government officials clearly indicate Baku is ready to engage with Nabucco shareholders, particularly with OMV and Hungary's MOL, but after Azerbaijan concludes its gas supply contract with Russia's Gazprom for this winter. Bryza added that Shah Deniz II could provide as much as 40 bcm annually by 2016. The USG wants to support the efforts of countries and companies that seek to develop Nabucco as a transit system for Azeri gas, but it does not want to exert any overt pressure. Nevertheless, Bryza emphasized that under no conditions would the USG support Nabucco to transport Iranian gas. It would also be important to push back on any Russian attempts to exert influence on Nabucco.

Turkey Still Searching for a Special Status

14. (C) In Rutenstorfer's view, Turkey is still searching for some kind of special status as a gas broker, as it is not satisfied to be a simple transit country. Rutenstorfer suggested that Turkey might join a company with Nabucco's commercial developers to market gas in Europe. Rutenstorfer stressed that OMV does not oppose this idea in principle, but working out practical management issues could prove tricky. He added that "Nabucco is complicated enough with the current structure and partners."

15. (C) Bryza admitted the Turks have been difficult on the

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transit issue, but he stressed that senior GOT officials, including Energy Minister Guler, do not want "to kill the goose that lays the golden egg." Guler must strive for the best possible arrangement for Turkey, or else face domestic political and possibly legal pressures for not securing a sufficiently attractive commercial arrangement for Turkey. Increasing Turkey's equity in the project would help bring along the GoT.

16. (C) Rutenstorfer maintained that OMV is open to some kind of special arrangement for Turkey. Moreover, Rutenstorfer cautioned that Turkey views Nabucco within the context of its EU accession negotiations, a process that will take years. Rutenstorfer pointed to the IEA Southern Corridor Conference as an excellent venue to clarify Turkey's role and facilitate progress on Nabucco.

Iraq -- Conflicting Signals From Kurdistan and Baghdad

17. (C) Rutenstorfer said that Nabucco would like to include Iraqi gas in the project at a later date. OMV gas exploration in northern Iraq is underway (reftel), but OMV is receiving conflicting signals from regional authorities in Kurdistan and from central authorities in Baghdad.

18. (C) Bryza said Turkish Energy Minister Guler has agreed to convene a meeting to discuss how to facilitate the development and export of Iraqi gas. Bryza underscored that the benefits accruing from the export of Iraqi gas belong to all Iraqis.

Gazprom's Influence

19. (C) Regarding Gazprom's efforts to exert influence on Hungary's MOL, Rutenstorfer said that "OMV could handle MOL." Gazprom's plans, in cooperation with MOL, to construct

a gas storage facility in Hungary could increase Europe's energy security, if managed according to commercial principles. Rutenstorfer opined that MOL is trying to maintain a delicate balancing act between the East (Gazprom) and the West. From its perspective, Gazprom views Central and Eastern Europe as a commercial battleground with the West. Rutenstorfer stressed that Gazprom's Blue Stream Pipeline to Turkey under the Black Sea made no commercial sense. Expanding Blue Stream to bring more Russian gas to Turkey then back north via Nabucco made even less commercial sense. Rutenstorfer observed that Gazprom seemed reluctant in following the dictates of Kremlin geo-strategists, who sought to launch three strategic thrusts into Europe with gas infrastructure:

--in the north, with the Northern European Pipeline under the Baltic Sea;
--in the middle via Ukraine and Belarus; and
--in the south via an expanded Blue Stream to Turkey, then into Italy and/or Nabucco.

¶10. (C) While OMV cooperated with Gazprom, OMV also viewed the Russian firm as a competitor, whose tactics were becoming decreasingly commercial and increasingly geo-political and predatory, as the "siloviki" consolidate their control over Gazprom.

Comment

¶11. (C) Rutenstorfer was extremely candid about the opportunities and challenges that Nabucco faces, including OMV's desire to secure Azeri gas supplies. Rutenstorfer's comments on Iran are probably true: the current geopolitical situation in Iran precludes any Iranian participation in Nabucco in the short-term. However, OMV interlocutors have repeatedly told post that Iran's large, untapped gas reserves would be welcome in the Nabucco pipeline, if Iran's relations with the West would improve. End Comment.

¶12. (U) EUR DAS Bryza has cleared this message.

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